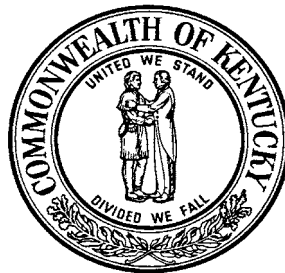


**REPORT OF THE AUDIT OF THE
FORMER BOURBON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER BOURBON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Bourbon County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$5,489,917 for the districts for 2002 taxes, retaining commissions of \$201,069 to operate the Sheriff's office. The former Sheriff distributed taxes of \$5,286,759 to the districts for 2002 Taxes.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Donnie Foley, Bourbon County Judge/Executive
Honorable John Ransdell, Former Bourbon County Sheriff
Honorable Mark Matthews, Bourbon County Sheriff
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the former Bourbon County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Bourbon County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Bourbon County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.



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In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 6, 2003

BOURBON COUNTY
JOHN RANSELL, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 791,855	\$ 756,186	\$ 2,611,219	\$ 963,254
Tangible Personal Property	78,882	74,184	271,071	399,856
Intangible Personal Property				116,676
Taxes Increased Through Erroneous Assessments			23	
Franchise Corporation	36,106	34,018	123,982	
Additional Billings	9,374	8,948	38,224	12,957
Limestone, Sand, and Mineral Reserves	370	354	1,511	450
Bank Franchises	31,961			
Penalties	278	266	1,139	343
Adjusted to Sheriff's Receipt	2,153	2,085		2,613
Gross Chargeable to Sheriff	<u>\$ 950,979</u>	<u>\$ 876,041</u>	<u>\$ 3,047,169</u>	<u>\$ 1,496,149</u>
<u>Credits</u>				
Exonerations	\$ 1,158	\$ 1,106	\$ 3,209	\$ 1,409
Discounts	13,567	12,331	43,229	23,385
Transfers To Incoming Sheriff	<u>120,015</u>	<u>114,357</u>	<u>374,558</u>	<u>172,097</u>
Total Credits	<u>\$ 134,740</u>	<u>\$ 127,794</u>	<u>\$ 420,996</u>	<u>\$ 196,891</u>
Taxes Collected	\$ 816,239	\$ 748,247	\$ 2,626,173	\$ 1,299,258
Less: Commissions *	<u>34,978</u>	<u>31,800</u>	<u>78,785</u>	<u>55,506</u>
Taxes Due	\$ 781,261	\$ 716,447	\$ 2,547,388	\$ 1,243,752
Taxes Paid	780,917	716,144	2,546,335	1,243,363
Refunds (Current and Prior Year)	<u>344</u>	<u>303</u>	<u>1,053</u>	<u>389</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

* Commissions:			
	10% on	\$	10,000
	4.25% on	\$	2,853,744
	3% on	\$	2,626,173

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 11, 2002 through January 6, 2003.

Note 5. Interest Income

The former Bourbon County Sheriff earned \$2,617 as interest income on 2002 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

BOURBON COUNTY
JOHN RANDELL, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

January 5, 2003

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. Since the Sheriff is no longer an elected official as of the audit report date, no recommendations for implementing compensating controls to offset the lack of segregation of duties will be made. However, we did communicate with the newly elected Sheriff about the need for proper segregation of duties within his office.

Former Sheriff John Ransdell's Response:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in current year audit report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Bourbon County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated March 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Bourbon County Sheriff's Settlement -2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bourbon County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is also considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 6, 2003

